



Report of the auditor-general to the North West provincial legislature and the council on the Ratlou Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ratlou Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Ratlou Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that all gravel roads had been accounted for, as the municipality did not have adequate systems to identify and record all roads. I was unable to confirm these assets by alternative means. In addition, the municipality incorrectly classified payments made for the construction of gravel roads as repairs and maintenance, resulting in the overstatement of repairs and maintenance and the understatement of property, plant and equipment. I was unable to quantify the full extent of the misstatement, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment was necessary relating to property, plant and equipment of R309 812 708 (2016: R270 879 417) disclosed in note 10 to the financial statements.

Payables from exchange transactions

4. The municipality did not record retentions as required by GRAP 1, *Preparation of financial statements* in instances where retention money was withheld based on work certified but not yet paid. Consequently, payables from exchange transactions and property, plant and equipment was understated by R1 841 918.

Prior period errors

5. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for revenue from exchange transactions, receivables from non-exchange transactions and the debt impairment expense. As described in note 47 to the financial statements, the restatement was made to rectify previous year misstatements, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the corresponding figures relating to receivables from non-exchange transactions of R10 630 895, revenue from exchange transactions of R10 839 073, and the debt impairment expense of R40 346 353 in the financial statements.

Irregular expenditure

6. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R12 049 844 in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as per note 43 to the financial statements.

Context for the opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
8. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised and fruitless and wasteful expenditure

11. As disclosed in note 41 to the financial statements, unauthorised expenditure of R3 712 535 was incurred in the current year and the unauthorised expenditure of R28 323 519 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
12. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R123 031 was incurred in the current year and fruitless and wasteful expenditure of R199 692 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

13. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2016 have been restated in the financial statements of the municipality at, and for the year ended, 30 June 2017 as a result of errors identified during the year.

Other matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
KPA 3 – Local Economic Development	x – x
KPA 4 – Infrastructure Development and Service Delivery	x – x

23. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

KPA 3 – Local Economic Development

25. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective.

KPA 4 – Infrastructure Development and Service Delivery

Indicator: Number of indigent households receiving free basic electricity

26. The reported achievement for the indicator was misstated as the evidence provided indicated 4 254 indigent households receiving free basic electricity and not the 3 750 as reported.

Indicator: Number of law enforcement initiatives

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the indicator. This was due to reported achievement not supported by reliable audit evidence. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment was required to the reported achievement of three initiatives.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 26 to 27 of this report.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for the objectives for KPA 3 - Local Economic Development and KPA 4 - Infrastructure Development and Service Delivery. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

34. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by extension of contracts without approval of a delegated official or having justifiable reasons.
35. Effective steps were not taken to prevent fruitless and wasteful expenditure of R322 723, as disclosed in note 42 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was due to interest paid on long outstanding accounts payables.

Budget

36. Reasonable steps were not taken to prevent unauthorised expenditure of R3 712 535, as disclosed in note 41 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was the result of inadequate budget processes.

Procurement and contract management

37. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of Supply Chain Management (SCM) regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
38. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
39. A contract was extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
40. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified for the following key projects selected for audit:
 - Renovation of Setlagole sports complex
 - Upgrading of internal access road into a surface road at Kraaipan and Setlagole (Kraaipan part A)

- Upgrading of internal access gravel roads into surface standards at Setlagole and Kraaipan (Setlagole part B).

Consequence management

41. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
42. Irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
43. A case of financial misconduct that constitutes a crime committed by an official was not reported to the South African Police Service, as required by regulation 10(1) of the Municipal regulations on financial misconduct procedures and criminal proceedings.

Assets management

44. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
46. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. I did not receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
 - Leadership did not ensure that adequate policies and procedures were implemented to enable and support the understanding and execution of internal control objectives, processes, and responsibilities resulting in misstatements identified in the financial statements and annual performance report and material deviations from legislation.

- Management's internal controls and processes over the preparation and presentation of financial statements and performance report were not adequate to ensure that the financial statements and performance report were free from material misstatements. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed, monitored and control measures implemented. Furthermore, the action plans to address prior year audit findings were not adequately implemented and monitored.
- The municipality did not conduct a risk assessment, as required by the MFMA. Consequently, significant control deficiencies which resulted in various non-compliance findings and misstatements in the annual financial statements and annual performance report were not identified. The audit committee was not in place and internal audit unit was not effective and functional throughout the year.

Auditor-General

Rustenburg

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ratlou Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.